

October 31, 2003

Honorable Mayor and Members  
of the City Council  
City of Roseville  
29777 Gratiot Avenue  
Roseville, MI 480666

Dear Mayor and Council Members:

We recently completed our audit of the financial statements of the City of Roseville, Michigan for the year ended June 30, 2003. In addition to our audit report, we offer the following comments and recommendations for your consideration.

#### GOVERNMENT ACCOUNTING STANDARDS BOARD STATEMENT 34

As previously communicated to you, Governmental Accounting Standards Board (GASB) Statement 34 is now here! The GASB believes that this new model will provide a more complete picture of the financial position of governmental units. You will notice a different look to the financial statements which we audited this year. We commend the City of Roseville's finance department for the excellent job they have done in preparing for this change. Although, there are many differences with this new reporting model, the major additions are as follows:

- Management Discussion and Analysis: Management is now required to give an overview of the Commission's overall financial position and results of operations.
- Government-wide Financial Statements: The statements now adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the Commission from a longer term perspective (i.e. are today's users paying for today's benefits?). These statements show capital assets, as well as long term debt, as part of the Commission's financial picture.
- Budget Comparison: A financial statement reader will now be able to not only view the actual revenue and expenditures of the Commission as compared to the current budget, but also as compared to the original budget.

## **GENERAL OVERVIEW**

For the year ended June 30, 2003, the City's General Fund fund balance increased by General Fund's net change in fund balance of approximately \$559,000. Overall, revenues increased approximately 4% from prior year while expenditure increases were limited to approximately 3% from 2002 to 2003. The City was able to recognize profit in the current year even with decreased revenue sharing and capped property tax growth mainly due to increases in building permit revenue, court judgment fees, and investment income. As many other communities; the City will continue to face financial challenges in its 2004 fiscal year. As discussed later in this communication in the State Shared Revenue and Property Assessment Cap comments, both the State's revenue shortfall and the limited growth in existing properties due to Proposal A will continue to have a negative impact on General Fund revenues. The City should continue to develop multi-year operational and capital plans.

## **STATE SHARED REVENUE**

Over the next few years, the City will continue to feel the effects of the slow down in the State's economy. State shared revenue accounts for approximately 19% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal years ending September 30, 2002 and 2003 were less than originally projected.

The previous Governor's original budget recommendation for fiscal year 2002/2003 was to keep total revenue sharing payments to cities, villages, townships, and counties constant (or frozen) at the fiscal year 2001/2002 level. This recommendation would have resulted in a reduction of approximately \$112 million from what the statutory formula would have otherwise allowed. As was well publicized, following the introduction of the previous Governor's fiscal year 2002/2003 budget there was an attempt in July 2002 to veto all statutory revenue sharing from the State's 2002/2003 budget. This attempt was not successful and the veto was overridden by the Michigan Legislature. However, in December 2002, revenue sharing was cut another \$53 million by an Executive Order of the previous Governor.

Currently, the proposed budget presented by the Governor includes an overall reduction to revenue sharing payments of 3 percent from the estimated payments for the State's year ending September 30, 2003. This version of the budget was ultimately adopted by the Michigan Legislature. While the State's budget has been approved for their 2003/2004 fiscal year, it included several very significant assumptions which have not been fully realized. The State Revenue Estimating Conference in October of 2003 addressed these shortfalls and the Governor is currently attempting to remedy the shortfall. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. Due to this line item in the State's budget remaining vulnerable, we continue to urge the City to be conservative in its estimation of state shared revenue. Many communities are budgeting less as a precautionary against an economy that might not come back as quickly as forecasted. The City of Roseville's projected revenue sharing for fiscal year ended June 30, 2004 is estimated to be approximately \$5,444,900 with the incorporation of the Governor's proposed fiscal year 2003/2004 budget.

We will continue to update the City as developments occur.

## PROPERTY TAXES

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%
2001	3.2%	1996	2.8%
2000	1.9%	1995	2.6%
1999	1.6%	1994	3.0%

The increases in the taxable value of property for 1999, 2000 and 2003 were the lowest increases since the 1994 adoption of Proposal A. The 2002 inflation factor is being used for property taxes levied in the City's fiscal year ended June 30, 2003. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. As the City is aware, this factor should be considered when the City is involved in long-term financial planning.

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. For the year ended June 30, 2003, the City's Headlee maximum property tax rate for its operating levy was 15.48 mills even though City Charter would allow the City to levy 18.35 mills for operations. As indicated, due to the passage of Proposal A, the City will not be allowed to "roll back" up to 21 mills. If the City requires additional mileage capacity for operations, then a Headlee override vote would be necessary to levy the mills that are authorized in City Charter.

## DEBT REFINANCING

The City has done an excellent job of taking advantage of declining interest rates by frequently reviewing the economic benefit of refinancing its debt. We would be happy to assist the City in the future with this process.

## ACCOUNT RECONCILIATION

We commend the City for again improving its monthly reconciliation procedures for significant accounts. The City did enhance its monthly reconciliation of the sweep account through coordination with the bank and was better able to reconcile the fund float amount each month.

## **WATER AND SEWER FUND**

During the audit, we noted that reconciliations were not performed for water and sewer fund customer accounts receivable. We are encouraged that the new computer system will enable a monthly reconciliation to be performed for the water and sewer fund customer accounts receivable. A monthly reconciliation will ensure accurate reporting and maintain adequate controls.

## **INTERNAL SERVICE FUND/RISK MANAGEMENT**

The City is partially uninsured for employee medical claims. Self insurance costs increased approximately 14% from prior year. As mentioned in previous years, the City should continue to analyze these costs and compare to other risk management alternatives. Our employee benefits specialists are available to assist the City with this analysis.

## **EMPLOYEES RETIREMENT SYSTEMS**

Employee post-retirement health care benefits have been historically funded through the City of Roseville's Employees' Retirement System in accordance with Public Act 28 of 1966. As defined in the Act, funding of post-retirement health care benefits is limited to investment income in excess of an actuarially determined limit. The Retirement Board has appropriately directed the System's actuary to calculate the limit for the current year. With the poor investment market performance of recent years, the Retirement System will likely be limited in its ability to cover the annual cost of retiree health insurance for the next few years. Costs above the actuarially calculated limit will be paid out of established reserves or, alternatively, borne by the City's General Fund

## **FEDERAL AID FROM AUGUST 2003 BLACKOUT**

The State has requested aid from the Federal Government for costs incurred by the State and local governments as a result of the August 2003 blackout. Specifically, emergency monies were requested to reimburse Michigan governmental units for overtime for public safety and transportation workers and other out-of-pocket costs associated with the blackout. It is our understanding, that the City has identified the costs associated with the blackout and submitted a claim to FEMA for reimbursement of costs of approximately \$46,000.

## **ELECTRONIC FUNDS TRANSFERS (ACH PAYMENTS)**

Recently, Public Act 738 was passed, which allows local units of government to make and accept electronic funds transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the direct deposit of payroll, this new law requires a policy to be adopted. Beginning immediately, a local unit's governing body may need to adopt a policy on ACH arrangements that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows:
  - describe the goods or services purchased,
  - the cost,
  - date of payment, and
  - the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

## **TELECOMMUNICATIONS ACT REVENUE**

Local units of government had until May 9, 2003 to notify the State that they were "opting in" to the new Telecommunications Act. The City did opt in and did receive its first payment from the METRO Authority by July 2003 for approximately \$29,355. The first payment was for a partial year and at a prorated rate. The second and future payments should be much larger as they will be based on a full year and at the standard rate. Checks for the second payment will be distributed in the Spring of 2004. If the State collects projected amounts ranging from \$26,000,000 to \$30,000,000, the City could expect to receive approximately \$165,000 to \$191,000 for the fiscal year ending June 30, 2004. The City should continue to monitor its projected revenue based on the State's revenue level. The City is required to spend the money received in a manner consistent with the allowable costs under the grant. The City of Roseville will have a reporting requirement due to having more than 10,000 residents.

## **PERSONAL PROPERTY TAX**

As noted in the financial statement footnotes for the current year, the State Tax Commission approved several years ago new personal property tax tables for utilities. The new tables made drastic changes to the transmission and distribution property of utilities. General estimates are that use of the new utility tables result in approximately a 30% revenue loss on those properties. The City, like many other communities, has elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables. This issue was the subject of several lawsuits brought by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. The State is currently in the process of determining how refunds will be made on appeals filed by the utilities pending the final resolution of this matter. We encourage the City to continue to monitor these developments as the City could be negatively impacted by the outcome.

## **CABLE TELEVISION FRANCHISE FEE CLASS ACTION LAWSUIT**

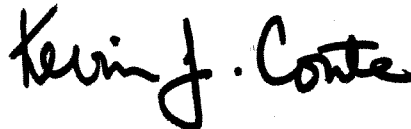
Recently, twelve local units of government were the subject of class action lawsuits with regards to cable television franchise fees. All lawsuits are making the argument that franchise fees collected in the community in fiscal year 2002 exceeds the cost of regulating the local cable television company. Based on this filing, it is important for the City to consider the following;

- Each franchise agreement is different.
- The agreement may contain language specifying the use of the fee or some portion of it. Generally, these fees are compensation for use of municipal right-of-way systems.
- There is existing case law which supports the municipal argument that a franchise fee is not a tax, but a form of rent.
- Whether the City's franchise agreement has specified conditions on the use of monies (i.e. for local channel, equipment, etc.).

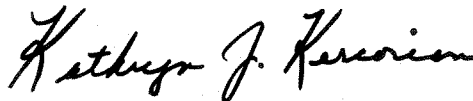
We would like to thank you and your staff for the courtesy and cooperation extended to us during this audit. If you have any questions regarding this letter, please feel free to contact us.

Very truly yours,

**PLANTE & MORAN, PLLC**



Kevin J. Conte



Kathryn J. Kercorian